

DOCKET SECTION

**BEFORE THE
POSTAL RATE COMMISSION
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**REPLY BRIEF OF
MAGAZINE PUBLISHERS OF AMERICA
ON QUALIFIED BUSINESS REPLY MAIL**

April 10, 1998

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INTRODUCTION

Magazine Publishers of America (MPA) filed an initial brief covering two issues not included in the joint brief filed by MPA and its Periodicals Coalition partners: 1) the Qualified Business Reply Mail (QBRM) rate; and 2) the distribution of rural carrier costs to classes and subclasses. No additional argument is required on the latter. In this Reply Brief, we only address the QBRM issue and respond to the Postal Service's arguments (USPS Initial Brief at VI-7-11) that witness Glick's cost estimate for QBRM is flawed and that the QBRM fee should not reflect any delivery cost avoidance. MPA is again joining with its coalition partners in filing a common brief on other issues.

I. WITNESS GLICK'S UNIT COST FOR QBRM PROCESSED ON A BARCODE SORTER IS THE ONLY ACCURATE ESTIMATE ON THE RECORD.

Witness Glick estimated that the unit cost (including Postage Due Unit activities) for QBRM processed on a barcode sorter is 3.56 cents. Tr. 27/15003. As described in his testimony, 3.56 cents is an upper bound estimate of the cost of sorting QBRM on a barcode sorter and performing all required activities in the Postage Due Unit. Tr. 27/15000-15001.

The Postal Service seems to believe that Glick's estimate of the cost for QBRM processed on a barcode sorter does not include all Postage Due Unit costs. USPS Initial Brief at VI-9. This is simply not true. Even if every piece of QBRM required two passes on a barcode sorter, the sorting cost (for two barcode sorts) would be no more than 1.63 cents. USPS-T-29, Appendix I, Page 3. Glick's 3.56 cent unit cost estimate, therefore, includes approximately two cents per piece for Postage Due unit activities. Two cents is sufficient to reflect all required Postage Due Unit activities because Glick only applied the 3.56 cent cost estimate to the 19.3 percent of QBRM for which end of run reports were available (and were used by the Postal Service as "Final BRM Piece Counts"). Tr. 36/14999, 15003; LR-H-179 at 24, Table 13. For this mail, the Postal Service only has to rate the mail and bill the recipient. USPS Initial Brief at VI-9. With machine counts in

hand, Postage Due Unit activities are less time consuming. Two cents is approximately five times the Postage Due unit cost for QBRM processed in the BRMAS operation. Exhibit USPS-27C. Clearly, his estimate is an upper bound, conservative one.

The Postal Service would have the Commission use a demonstrably incorrect estimate of the cost of QBRM that is sorted on a barcode sorter -- the cost of manually sorting QBRM. USPS Initial Brief at VI-9. The Postal Service proposed applying the cost of manually sorted QBRM to barcode sorted QBRM. Clearly, sorting QBRM on a barcode sorter is less costly than sorting it manually. The Service argues that Glick's estimate of the difference between the cost of a barcode sort and a manual sort is too high and, therefore, his cost estimate (including Postage Due Unit activities) for QBRM that is processed on a barcode sort is too low. USPS Initial Brief at VI-9-10. What the Postal Service fails to understand is that Glick made many conservative assumptions in developing his cost estimate for QBRM that is sorted on a barcode sorter. Tr. 27/15001. If any one of his assumptions turns out to be less than conservative, it would be more than balanced by the conservative nature of other assumptions. Thus, the Commission should use Glick's cost estimate, which reflects the fact that automated sortation is much less expensive than manual sortation.

II. THE POSTAL SERVICE'S INTERPRETATION OF THE PURPOSE OF THE QBRM FEE DOES NOT PROPERLY ALIGN RATES WITH COSTS AND YIELDS STRANGE RESULTS.

In its Initial Brief, the Postal Service argued that the QBRM fee should only take into account the cost of counting, rating, and billing QBRM pieces. USPS Initial Brief at VI-7. In contrast, MPA argued that the QBRM fee should take into account the cost difference between QBRM and the First-Class Mail that forms the basis of the postage rate upon which the QBRM fee is added. Tr. 27/15008, 15028-15029. The Postal Service's interpretation is not only inappropriate from a cost causality perspective, but also inconsistent with the statutory objective of fairness and equity.

Under the Postal Service's interpretation of the QBRM fee, the rate for a QBRM letter would increase three cents if the Postal Rate Commission decides not to approve the PRM rate. This would be a necessary consequence since, in the absence of the PRM

rate, the QBRM fee would be paid in addition to the cost of a stamp rather than in addition to the PRM rate. Thus, the prebarcoding cost savings would not be taken into account in the QBRM fee. This makes no sense. The rate for QBRM mail (postage rate plus QBRM fee) should be determined through analysis of the cost of QBRM mail, not based upon whether or not the Postal Rate Commission decides to recommend the establishment of another rate category.

Moreover, not reflecting the prebarcoding cost avoidance in the QBRM rate would be inconsistent with the statutory objective of fairness and equity as described by witness Fronk. USPS-T-32 at 47-48. Fronk testified that by recognizing some of the cost savings from prebarcoding, the Postal Service is able to permit a broader base of customers to more directly share in the benefits of automation. This laudatory goal is achievable even in the absence of PRM. For the same reason – fairness and equity – the delivery cost avoidance should be incorporated into the QBRM fee.

In support of its assertion that the QBRM fee should only take into account counting, rating, and billing costs, the Postal Service quotes the Commission: “The purpose of the BRMAS costing analysis is to measure the cost of the special service features, i.e. counting, rating, and billing for BRMAS mail. It is not to measure other attributes of BRM, which may be common to other mail.” USPS Initial Brief at VI-7. This statement is taken out of context and is, therefore, misleading. Just above the quoted passage from the Commission’s Docket No. R90-1 decision, the Postal Rate Commission noted that their proposed fee “will have the effect of providing BRMAS letters with a 2-cent barcode discount from First-Class postage.” PRC Op., R90-1, Vol. 1, at V-434. Glick’s proposed treatment of the prebarcoding cost savings in the absence of the PRM rate has the same effect as the BRM rate structure recommended by the Commission in PRC Op., R90-1, Vol. 1, at V-434.

CONCLUSION

QBRM mail is inexpensive First-Class mail; the unit cost for QBRM is nearly three cents less than the unit cost for processing a First-Class single-piece, nonbarcoded letter.¹ Thus, in the interest of a logical, coherent rate schedule in which rates track costs, the total rate for a one ounce QBRM letter, including the fee and the postage rate upon which the fee is added, should be no higher than the price of a First-Class stamp. MPA's proposed two cent QBRM fee meets this criterion.

Respectfully submitted,



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¹This 3 cents is the cost of sorting, counting, rating and billing QBRM minus the savings from prebarcoding and delivery avoidance.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.


James R. Cregan

Washington, D.C.
April 10, 1998